

Study of the Reserves, Endowments, and Surpluses of Health Insurers and Hospitals Project Summary

Section 35 of Chapter 305 of the Acts of 2008 requires that the Division of Health Care Finance and Policy (DHCFP), in conjunction with the Division of Insurance, conduct a study of the reserves, endowments, and surpluses of health insurers and hospitals. The goal of this study is to “examine options and alternatives available to the commonwealth to provide regulation, oversight and disposition of the reserves, endowments, and surpluses of health insurers and hospitals.”

The study will culminate in a report with separate analytic findings and recommendations for insurers and hospitals. The report will also discuss instances of potential intersection – e.g. should insurers in Massachusetts move in the direction of global financing of provider services, with the concomitant shift of risk from insurers to providers, surplus requirements for both hospitals and insurers are impacted.

Insurers: The analytical approach will be to identify and analyze the basic risk factors and risk profile for each insurer. It will include an analysis of trends in premiums, claims, loss ratios, surplus or free reserves, and reconciliation of claims reserves. Corporate structure, including holding companies, will also be reviewed in order to determine the impact of such structures on surplus levels and/or requirements. The types of risk that surplus is intended to mitigate against will be examined and reported, including premium pricing risk, provider pricing risk, risks associated with transitioning provider payment methods either from fee for service to capitation or from capitation to fee for service, investment risk, capitation risk, inflation risk, utilization risk, and the impact of potential changes in the funding of public programs such as Medicare and Medicaid.

The study will review laws and regulations governing the level of surplus maintained by health insurance companies and Community Benefits requirements for the Commonwealth and select other states. To the extent possible, the study will also identify how issues unique to the Massachusetts health insurance market impact surplus requirements.

The primary sources of historical data for health insurance companies will be the Annual Statements and the accompanying Notes to Financial Statements filed by each insurer with the Division of Insurance for 1999-2008 and the audited financial statements for 2007.

Hospitals: The analytical approach will be to identify and analyze applicable accounting standards, laws and regulations relating to hospital surplus and reserve accounts, and the guidelines or advice of relevant professional associations. The multitude of issues considered by Boards of Directors and hospital management will be reviewed, including but not limited to payer reimbursement policies, the wishes of benefactors, the mission of the hospital, bond covenants, the level of services to vulnerable and/or uninsured populations, the nature of reimbursement contracts (e.g., the type of risk that the hospital assumes under a fee for service contract as compared to the type of risk that the hospital assumes under a capitation or global payment contract, and the change in the mix of these contracts), payer mix and the margins

associated with each type of payer, corporate structure (including holding companies), and the overall economic environment, including how volatility (or dramatic changes) in the environment change board and management decision-making toward surplus levels.

In addition to reviewing Massachusetts state laws and regulations, the study will review the laws and regulations that govern the level of surplus maintained by hospitals in select other states. The study will also examine the Community Benefits requirements placed on hospitals both in Massachusetts and other states. To the extent possible, the study will identify how issues unique to the Massachusetts health insurance market impact surplus requirements. Activity at the Federal level looking at the tax-exempt status of certain non-profit hospitals will also be explored.

The primary sources of historical data for hospitals will be the Hospital DHCFP-403 reports and the audited financial statements of the state's acute care hospitals.

Report: The final report will detail the current and historical levels of both insurer and hospital reserves and surpluses in Massachusetts. It will review factors impacting surplus, requirements for community benefits, and existing laws and regulations in both Massachusetts and other states. The Division will file a report of its findings and recommendations for any changes in regulation, oversight, and disposition of reserves, endowments, and surpluses with the legislature by July 1, 2009.